VISIT…

Developing trading discipline: using stops consistently for "insurance"

- **Main Points:**

Enter a stop market sell order *immediately* after buying stock (and getting confirmation from your online broker) so that you know your "downside" as soon as you enter the trade.

It's up to you to decide how close your stops should be. West & Friedfertig say your maxiumum should be 3/8 of a point in their daytrading book. I use even closer stops, particularly when trading lots (1K shares), usually no more than a few spreads down.

Don't EVEN THINK about using so-called "mental stops" for several reasons:

TECHNICAL PROBLEMS: Broker and Internet Connection slowdowns:

FIRST: You may easily run into the problem of a downed or slow ISP internet connection to your broker. You do Not want to frantically try and close (sell) a position when your ISP is dead and you see the stock plummeting 1/2 point or more. Not fun, gang.

SECOND: Your Broker may be experiencing delays and problems in receiving a sell order if you depend on fast executions. Even pro daytrading brokers slow down sometimes and you do not want to be on the wrong side of a trade when it happens.

THIRD: Your pc may have a problem; even though I have a P2350 128megs memory etc. the ram can run out and freeze up your computer. You may accidentally hit a wrong key, have a power outage, spill coffee, have a nagging wife (lol); any of a hundred distractions may keep you from selling manually. Use automatic stops instead.

MENTAL PROBLEMS: You hope it's going to go up after you buy it:

Hope, fear and greed - welcome to the daytrading casino! Anything you can do to make your trading activities more automatic, using solid trading techniques, will help you become profitable. Entering a stop market sell order after buying stock will help you with this.

How to Use "Trailing Stops" To Lock in Profit

Examples:

Ok, so you've just bought 500 shares of SPLS using a Limit Buy SPLS 17 3/8 order.

You've clicked "Daily Activity" until you see the confirmation (in bold) that stock is "Bought":

11/08/1999	15:26:03	15:26:05	**Buy**	**100**	**SPLS**	**17 5/16**	**Bought** *	$-1,731.25
11/08/1999	15:41:26	15:41:28	**Buy**	**400**	**SPLS**	**17 3/8**	**Bought**	$-6,959.99
11/08/1999	15:45:25		Sell	500	SPLS	17 1/4	Cancelled	
11/08/1999	15:46:16		Sell	500	SPLS	17 3/8	Cancelled	
11/08/1999	15:48:34		Sell	500	SPLS	17 7/16	Cancelled	
11/08/1999	15:50:01		Sell	500	SPLS	17 1/2	Closed	
11/08/1999	15:50:32		Sell	500	SPLS	17 9/16	Cancelled	
11/08/1999	15:51:33	15:52:50	**Sell**	**430**	**SPLS**	**17 5/8**	**Sold** §	$7,580.17
11/08/1999	15:51:33	15:51:34	**Sell**	**70**	**SPLS**	**17 11/16**	**Sold** *	$1,238.08

The very next thing you do is enter a Sell Stop Market order at, say 1/8th point under where you bought (in this case Sell SPLS Stop Market at 17 1/4). (Datek was slow this am, took 4 mins to confirm order).

Now, I nailed it correctly and more buyers came in. The stock moved up another 2 spreads. So, I Cancelled my original Sell Stop Market 17 1/4 order, clicked "Daily Activity" til the confirmation came through, then entered a Sell Stop Market order at 17 3/8. Congratulations - you've "cleared the spread" and can now sell stock for what you bought it at. Well, that's ok but I'm here to make money, so...

Repeat the process: cancel your original Sell Stop Market orders as the price gets bid up and enter one spread higher each time. You can see I used "trailing stops" very close to the current market - I want to lock in every penny of profit I can.

Finally, sellers start to come in at 17 5/8, and my stop is taken out. I am up 1/4 point on 500 shares for a profit of $125 in 15 minutes. Continue doing this throughout the trading day and make a good living.

If I was wrong, I'd be stopped out at -1/8 point, or just $60 (+$20commis) or -$80 on the trade.

Does that make sense? It's a tight "scalping" play, and shows just one of many ways to daytrade.

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